

26 March 1969

MEMORANDUM FOR THE RECORD

SUBJECT: Daniels Bill - H.R. 770

1. This memorandum briefly analyzes the Daniels bill (H.R. 770), what it does, and its possible impact on the CIA Retirement Act.
2. What it does. The Daniels bill is concerned with two aspects of the Civil Service retirement system:
 - a. to improve the financing and funding practices of the Civil Service retirement system, and
 - b. to improve the benefit structure.
3. Benefits. As introduced, the bill provided five benefit improvements:
 - a. Authorize inclusion of overtime and premium compensation, along with basic salary, to arrive at "average pay."
 - b. Establish average pay over high three rather than high five consecutive years.
 - c. Credit unused sick leave to total actual service.
 - d. Add a flat 1 percent increase to each future cost-of-living annuity adjustment.
 - e. Extend the benefits of P.L. 89-504 to remarried survivor-annuitants (age 60 rule) to cases where spouse retired or died prior to 18 July 1966 when Section 506 became effective.

4. Overtime compensation. The provision would increase an agency's payroll costs by 6 1/2 percent of overtime and premium compensation paid. Employees receiving such compensation would be required to make an equivalent contribution. In many instances the provision would not benefit the employee, particularly in the middle and higher grades where overtime is not paid, and does not form a basis for average salary. From the Civil Service Commission's standpoint the most unacceptable aspect of this provision is the \$2.5 billion it would add to "unfunded liability." However, the agency's overtime policy could be called into question by an employee whose average pay would be potentially increased. According to the Daniels Subcommittee staff (21 March 1969), the Committee will most likely defer to CSC and drop this provision.

5. Average pay. The high five element in annuity computation tends to lead to postponement of retirement and shortening this period to three years may have a tendency to speed up retirement. It had been estimated last year that this feature would increase "normal cost" by .07 percent.

6. Sick leave credit. The payroll cost to Government agencies would be 25 percent of the sick leave so credited. There would be no cost to the employee. In the case of disability retirements this provision would eliminate the need to carry the participant in sick leave status and on ceiling during sick leave (with resultant accumulation of annual and sick leave) prior to retirement. The provision also authorizes the annuity ceiling of 80 percent to be exceeded for this purpose.

7. Cost-of-living. The additional 1 percent increase authorized when annuities are adjusted for cost-of-living in the future is intended to offset the five-month lag between a 3 percent increase over the base period and the effective date of any increase. All cost-of-living adjustments of annuities add to "unfunded liability." Further, Section 103 of the bill (page 7 (h)) prohibits the payment of any cost-of-living adjustment for " . . . any fiscal year which begins more than one year after the effective date of that increase unless and until an appropriation is made by the Congress to compensate the Fund for the cost . . .".

8. Remarriage survivor-annuitant. The CIA Retirement Act presently does not contain a similar provision and, in fact, provides for termination of survivor annuity upon remarriage.

9. Financing and funding proposals.

a. H.R. 770 in Section 102 establishes a 7 percent deduction and contribution rate to be effective December 31, 1969. This

feature tends to make the CIA Retirement Act, or any other retirement act having a 6 1/2 percent rate, more attractive in comparison. In the Agency, where conceivably both rates could apply, this situation would seem to create an understandable impetus to be covered by the CIA Retirement Act and its lower contributory rate rather than the Civil Service system. There may be additional ramifications if Agency employees are divided by two different contribution rates for retirement.

b. Section 102 authorizes the Civil Service Commission to make further adjustment of contribution rates against "normal costs," which are defined in Section 101(3) of the bill, subject to congressional veto.

c. Section 103 (page 7 (g)) requires partial funding of existing "unfunded liability," which is defined in Section 101(3), through a sliding scale of payments on interest, and Section 103 (page 6 (f)) requires full funding of unfunded liability in the future for new or liberalized benefits, extension of coverage, or general increase in pay structure.

d. In addition to requiring employing agencies to contribute 25 percent of the value of unused sick leave credit to the fund (Section 103, page 8 (j)), the Secretary of Defense is required to pay an amount determined by the Commission sufficient to cover annuity disbursements which are attributable to "military service" (Section 103, page 8 (i)).

In the past, the unions have opposed giving the Commission the authority to establish contribution rates administratively and this provision is a likely candidate to be dropped in the compromise which necessarily will have to be reached on the bill (see Memorandum for the Record, dated 21 March, re discussion with Subcommittee staff).

10. Conclusion. It seems reasonable that any action on the Agency's part to seek the improved benefits of the Daniels bill will also involve questions concerning the actuarial impact of the benefits on the CIA Retirement and Disability Fund. Quite likely the minimum price for equivalent amendments to the CIA Retirement Act would be an increase in contribution rates. The adoption of some of the other financing and funding practices ultimately approved in the Daniels bill may also be involved. The passage of the Daniels bill still raises two inevitable questions:

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a. the ramifications of different contribution rates for employees within the Agency (depending upon the retirement system which covers them), and

b. the continued viability of the CIA Retirement Act.

In 1964 the advantage of retirement under the CIA system in most instances was a 3.75 percent larger annuity and eligibility to retire at an earlier age without reduction in annuity. This 3.75 percent annuity advantage may be reduced to as little as 2.45 or less if the sick leave credit provision is eventually enacted for Civil Service but not for the CIA retirement system (last year the 1324 hours of unused sick leave to the credit of the last 29 retirees under the CIA system could generate a 1.3 percent increase in annuity--with an inducement to preserve sick leave, this figure most likely would be higher). Clearly, the 1964 advantage for retiring under the CIA rather than the Civil Service system has been eroded and can be further diminished or completely overtaken by the enactment of other benefits proposed by H.R. 770, such as using three rather than five consecutive years of high salary for computing an annuity and adding a 1 percent bonus to the cost-of-living increases generated under the more liberal Civil Service formula. Since 1964, the age requirements for retirement with full annuity under Civil Service have been reduced. In the case of involuntary separations there is no reduction in annuity for retirement at age 55 with 20 years of service. The average retiree under the CIA system is now 55 years of age and has 24 years of service. On balance then, it must be concluded that the Agency must keep pace with the improved benefits of the Daniels bill if the viability of the CIA Retirement Act is to be maintained.

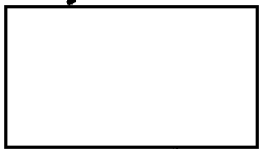
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